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Integrated Reporting for Public Sector in EU. A case study

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Abstract

Sustainability reporting encompasses corporate reporting beyond traditional financial reporting into broader features of corporate performance and effect, including environmental, social and economic topics, and some durable outlooks. This paper studies the state of the art at a certain momentum for integrated reporting for public sector, with focus on the latest reports from five city-capitals from European Union. We have known for several years already a type of mixed reports (that included sustainability disclosure and non- financial data). The aim of this paper is to examine the influence of integrated reporting (IR) on the sustainability reporting practices of these entities. This paper presents a useful analysis of developments in sustainability reporting towards integrated reporting. It describes how reporting has evolved from environmental reporting to broader sustainability reporting, and the latest development towards integrated reporting. Many elements of sustainability reporting, such as the stakeholder perspective and employee participation, link directly to new public management, good governance and transparency. This paper examines the influence of the new introduced concept of integrated reporting (IR) on the sustainability reporting practices of these entities, using mostly a documentary research approach and its main objective is to characterize the recent stage in the development of integrated reporting, incorporating the newest ideas, date and featuring new trends in public sector reporting the perspective of adopting an integrated reporting system for public entities. In the case of sustainability reports, which some public sector entities already presents, either voluntarily or as a result of policy and regulation. Sustainability reporting can therefore provide a platform for gathering any sustainability data that is needed in an integrated report. The main limits of the study derives from privation of data needed, reporting practice regarding integrated reports in the public sector.

Keywords

Integrated Reporting; Sustainability Reporting; Public Sector

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1. Introduction

Sustainability reporting encompasses corporate reporting beyond traditional financial reporting into broader features of corporate performance and effect, including environmental, social and economic topics, and some durable outlooks. Reporting of different types of sustainability issues has an amplified importance in the private sector since the 1990s. The International agendas such as the United Nations" -Sustainable Development Goals- (SDG-12.6) demand for enlarged reporting by all types of institutions.

In the European Union, by a new directive (2014/95/EU) it is mandatory for large "public interest entities" to start disclosing "non-financial and diversity information." France in the latest years mandated all municipalities with more than 50,000 inhabitants to periodically produce sustainability reports (CGDD, 2012).

The International „IR" Framework displays out the basics of Integrated Reporting in the subsequent expressions: *„IR" is a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time. Integrated thinking is the active consideration of the relationships between an organisation"s various operating and functional units and the capitals that are used or affected. An integrated report is a concise communication about how an organisation"s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term."*

„IR" integrates material factors into a full story of value creation encompassing both financial and pre-financial issues. The term "Pre-Financial" defines those influences that although not impacting on an organization"s financial performance in the short term will inevitably have a financial impact over time. Common practice is to use the term "non-financial" to describe these factors but this can give the false impression that there is no medium- or long-term financial impact (CIMA, 2014).

Scholars argue either the term non-financial issues is more accurate than the pre-financial issues one. There is a consensus in largely utilizing the term of non-financial, due to the metric values easily quantifiable in a monetary value. Although "Pre-financial" is meant here to substitute the term "non-financial" when referring to all sets of information which presently do not have a "monetary value" but that, in the future, will have an impact on the financial status of the comparison (Mazars, 2015), we consider that the pre-financial issues will be the ones that need a assessment process in order to be included in the integrated reporting. The most important issues derive from the employees as an organization"s people are its most important asset. Metrics often used to assess the strength of this asset derive from staff engagement surveys and satisfaction surveys. Deterioration in these so-called "non-financial" indicators will inevitably lead to financial issues such as increased costs as a result of lower efficiency and engagement with key objectives and lower funding as a result of poorer relationships with clients.

There are some opinions that the concept of sustainability has "reached the status of saturation" although "sustainability practices for public services have been neglected by scholars and others as a subject of theoretical research and in-depth investigation" (Guthrie *et al*., 2010).

Why integrated reporting is needed? There is a question that startlingly, academic literature shows little consideration to. Do we need an integrated reporting for local governments? Is there any evidence for reporting being an effective, multi-purpose, universally applicable way of promoting sustainability? There are speculative testimonials about various positive effects (Lamprinidi and Kubo, 2008) but also forewarnings: in the private and public sector, some critics fear "accountingization" where sustainability reports are merely "an outlet for "greenwashing" or a source of "managerialist" information" (Dumay *et al.,* 2010) that "may reinforce business-as-usual and greater levels of unsustainability" (Milne and Gray, 2013). In a less exciting development, reporting may lack or lose its benefits; as evident from this article, in some cities, sustainability reporting was started with enthusiasm but later stopped following what practitioners describe as "reporting fatigue."

In its first expression- "integrated reporting" it was the integration of a financial report and sustainability or a corporate social responsibility report. Integrated reporting has since evolved to emphasize the importance of the so-called "six capitals" which are financial, manufactured, intellectual, human, social and relationship, and natural.

The premise of the integrated reporting („IR") framework developed by the International Integrated Reporting Council (IIRC) is that traditional financial reporting does a good job of capturing financial and manufactured capital, manufactured capital being hard assets that are shown on the balance sheets that you can depreciate and so forth. It doesn"t really pick up much in the way of the other four capitals. So the basic argument is that companies use all six of these capitals to create value for shareholders over the short, medium, and long term and have impacts on these capitals, both positive and negative, in doing so. „IR" helps to tell this more complete story.

2. Literature review and methodology of research

This paper presents a useful analysis of developments in sustainability reporting towards integrated reporting. It describes how reporting has evolved from environmental reporting to broader sustainability reporting, and the latest development towards integrated reporting. Many elements of sustainability reporting, such as the stakeholder perspective and employee participation, link directly to new public management, good governance and transparency.

This paper examines the influence of the new introduced concept of integrated reporting (IR) on the sustainability reporting practices of these entities, using mostly a documentary research approach and its main objective is to characterize the recent stage in the development of integrated reporting, incorporating the newest ideas, date and featuring new trends in public sector reporting the perspective of adopting an integrated reporting system for public entities.

In this regard we have reviewed the literature, and used a study case for several city-capitals form EU countries, using a multi-criterial analysis to investigate and to achieve the purpose of the paper.

2.1. State of the art - Sustainability reporting by local governments. *Do we need integrated reporting?*

Commonly the term sustainability reporting has two key meanings: (a) producing reports yet also (b) disclosing information. This dual meaning stands at the root of two major lines of research with different conclusions: firstly, when assessing the prevalence of reports, a common observation is that 'the uptake, forms and practice of sustainability reporting among public agencies is still in its infancy compared to the private sector' (Lamprinidi and Kubo, 2008); when studying mere disclosure, scholars praise increasing compliance rates (Navarro Galera *et al*., 2014).

There is a well-known interest from the academic community to research: whether the quest for disclosure – detecting the presence of desired indicators in institutional communications – has become important or not. We studied several reviews and found that 58 per cent of private and public-sector reporting is applying a form of document analysis (Hahn and Kuchen, 2013), this revision comprises 178 studies. There is also a recent research that shows similarity as percentile (Niemann and Hoppe, 2018), but this one is focused on local governments only.

While in the private sector sustainability reporting, and moreover integrated reporting is often attributed to the objective of maintaining a ‘social licence to operate,’ and public-sector sustainability reporting research also refers to legitimacy-seeking behaviors (Niemann and Hoppe, 2018).

While we may encounter various cities across Europe and also worldwide whom are willing to produce numerous reports, including the sustainability ones in order to reinforce their qualifications, for a better ranking to “the best city to live in” rank, or the “greenest city”. Cities have economic, environmental, and social impacts that should be measured in a systematic approach in order to be managed. The GRI Standards provide such an approach and encompass the triple-bottom-line by focusing on an organization’s economic, environmental, and social dimensions. All three are necessary to measure a city’s progress toward sustainable development. The GRI’s publicly accessible registry (http://database.globalreporting.org) state that organizations need to report only what is important to that city and to be transparent about its determination process. But still, according to GRI we have only 12 (Amsterdam, Warsaw, Dublin, Mussing, Bonn, Kornberg, Nurnberg, Wien, Zug, Zurich) cities from Europe whom report on some level information on sustainability (either GRI 4, or just repots). In the times of ‘open data,’ however, local government disclosure takes place via different media (print or electronically), different documents (e.g. plans, reports, policy papers), at different intervals, and may be a stand-alone activity or part of a larger process. Furthermore, indicators can be used descriptively or with performance-oriented targets and rankings, which has profound management implications (Behn, 2003). Consequently, studying plain disclosure faces maximum outputs and loses analytical power as it shuns the request of organizational use.

The „IR” Framework envisages that an integrated report should be prepared primarily for providers of financial capital in order to support their financial capital allocation assessments.

In the public and not-for-profit sectors this refers to those providing financial funding to the organisation as distinct from shareholders in a private sector context. Although funding providers are the primary intended report users, an integrated report and other communications resulting from „IR” will be of benefit to all stakeholders interested in an organisation’s ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators, and policy-makers (CIMA, 2015).

The Framework document sets out the three fundamental concepts of „IR”: Value creation, the capitals, and the business model. Value creation lies at the heart of „IR”. Traditionally the meaning of value has been associated with the present value of expected future cash flows, and value creation has been understood as the change in that measure of value due to an organisation’s financial performance. „IR” is based on the understanding that future cash flows and other conceptions of value are dependent on a wider range of capitals, interactions, activities, causes and effects, and relationships than those directly associated with changes in financial capital. Notably for local governments the purpose of an integrated report is not to measure the value of an organisation or of all the capitals, but to provide the information that enables report users to assess the ability of the organisation to create value over time.

There are easily identifiable two components of value: (1) value to the organisation, and (2) value to society/stakeholders broadly. While creating value for itself, the organisation also creates and/or destroys value for others (for example, salary payments create value for employees) and, to the extent it affects the organisation’s ability to create value for itself in the future, the value created and/or destroyed for others should be included in the integrated report. While the ‘capitals’is regarded – this is the IIRC’s term for the broad range of resources and relationships used and affected by the organisation in its business activities. Traditional business decision making would have focused on the financial aspects – tangible assets and liabilities. But increasingly value creation has relied on intangible factors such as intellectual, human, social and relationships and, of course, we are all more aware now of the importance of considering continuing access to essential natural resources.

The IIRC recognises six distinct but interrelated capitals: financial, manufactured, natural, human, intellectual and social and relationship. Organisations most commonly report on the financial and manufactured capitals. „IR” takes a broader view by also considering intellectual, social and relationships, and human capitals (all of which are linked to the activities of people) and natural capitals (which provides the environment in which the other capitals exist).

This is the essence of „IR” promotes due consideration of: the impact of an organisation’s activities across the six capitals, and decision making that recognises the necessary trade-offs, both between the different forms of capital and over time (Figure 1).

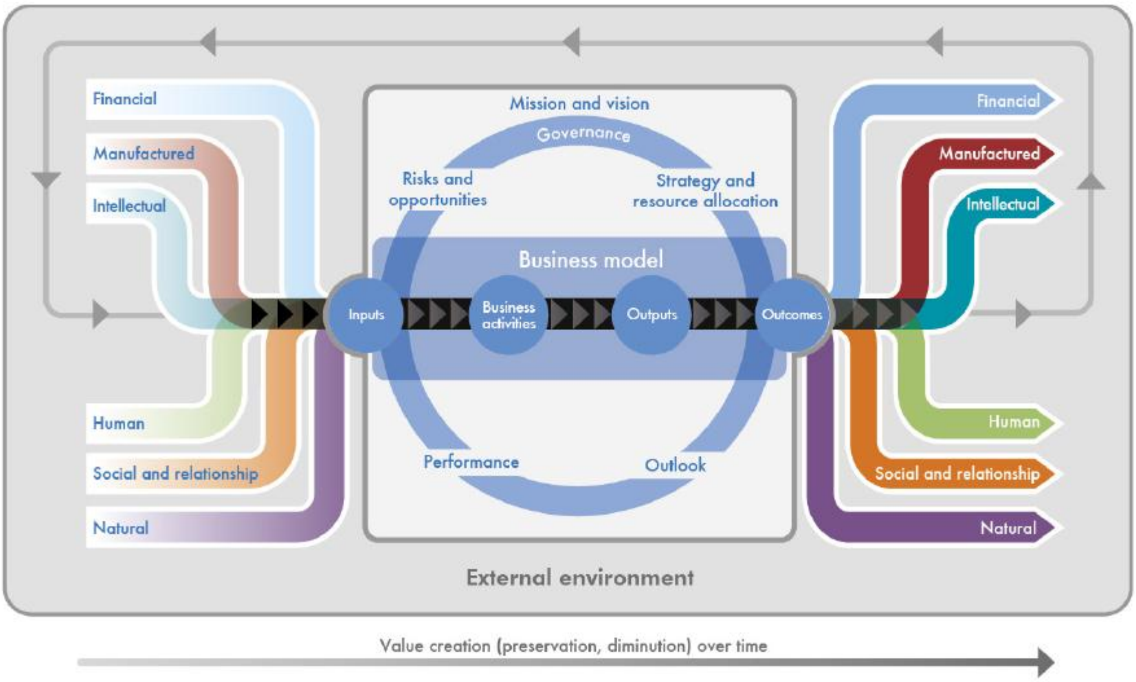

Figure 1. The essence of IR

„IR" drives integrated thinking, which promotes a better understanding of the impact of decisions on the value creation process, taking into account the broad range of factors relevant to that process, not just short-term financial considerations. This emphasis encourages better decision making, greater transparency and a longer-term perspective, all of which are crucial to the sustainability of public services.

A 2014 IIRC survey of public and private sector organizations using „IR" found the key benefits to be as follows: (a) Breakthroughs in value creation; (b) Improving what is measured; (c) Improving management information and decision making; (d) A new approach to stakeholder relations; (e) Connecting departments and broadening perspectives; When 'value creation' is also considered in a non-financial context, these benefits are equally applicable to the public and private sectors. In 2005, the GRI launched sustainability reporting guidelines for the public sector that suggest addressing three information types, namely organizational performance, public policies and contextual issues. Figure 2 illustrates these with examples.

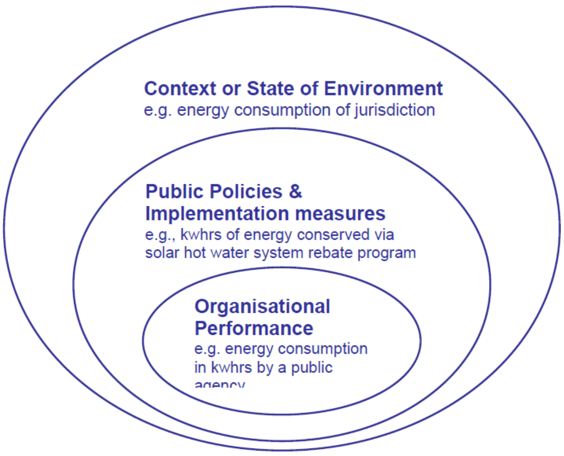

Figure 2. GRI Information types

For the GRI, 'The focus is to provide reporting guidance on the first and second type of information, as the third type of information is often included in other types of reports' (GRI, 2005). While the GRI framework is about retrospective reporting, failing to address the time dimension beyond comparing a report to the previous one (Lozano and Huisingh, 2011), the IR framework also requires forward-looking projections and targets (Stacchezzini *et al*., 2016). This implies another information type, labelled 'outlook,' and implicitly addresses the question of periodicity. In the private sector, both financial and sustainability reports are usually published annually, strengthening the case for their integration, yet this is no necessity. Many local governments in Germany issue sustainability reports at multi-year intervals (Plawitzki, 2010).

Concerning non-manifest aspects of reporting, practitioners face essential design choices. Who should be involved, what should those involved be doing and what process should they follow (Mitchell *et al*., 2008)? For these process questions, normative frameworks offer little guidance. Sustainability reporting as promoted by the GRI recommends the participation and targeting of a wide stakeholder audience, while IR has a narrower focus on providers of financial capital (Adams, 2015). The latter may be inappropriate for the public sector (Bartocci and Picciaia 2013); for local governments, key stakeholders relevant for reporting minimally include civil servants, politicians and the public. Another process feature concerns external auditing which according to some authors 'should be a permanent element of every sustainability report' (Greiling and Grüb, 2014).

We own up to the fact that the „IR" Framework is a set of guidelines and does not actually impose a structure.

3. Results and conclusions

To test the assessment framework, we applied it to those cities that had the available data: Warsow, Paris, Zurich, Amsterdam and Dublin. Our main selection criteria thus were the implementation of sustainability reporting over several years and positive appraisal from researchers, peers or the awarding of public prizes. Our research consisted of on-line available date from these local governments authorities. We chose to focus on European cities with at least 100,000 inhabitants. The five French, Polish, Dutch, German, Irish and Swiss cities presented were identified via the literature (Table 1), report registries including the GRI's.

Table 1. Literature review

Research	Main purpose	Data	Results
Marcuccio and Steccolini (2005)	12 Italian local authorities	Interviews	Growth in reporting both in quantity and quality of information
Marcuccio and Steccolini (2009)	15 Italian local authorities	Analysis of social reports	Lack of standards can explain differences in disclosure practices
Plawitzki (2010)	German municipalities	Individual reports and six case studies	80 German local governments have produced reports
Alcaraz-Quiles *et al*., (2014)	55 Spanish towns	Disclosure of GRI indicators on websites Regression analysis on 13 factors	Disclosure driven political interest
Navarro Galera *et al*., (2014)	33 European local governments	Content analysis of websites	Existence of reporting
Niemann and Hoppe (2018)	6 European Municipalities	Exploratory evaluation Content analysis of website Interviews Disclosure of GRI indicators	Sustainability reporting can benefit organizational change, management and communication

Although the Public Framework sponsors Institutions (mainly the IIRC's) extended project is one norm both for corporate reporting in both the public and private sectors, this does not mean that it will replace all other forms of reporting. There is need for diverse forms of reporting, in view of stakeholders different types of informational necessities (e.g. environmental reporting). In the case of sustainability reports, which some public sector entities already presents, either voluntarily or as a result of policy and regulation. Sustainability reporting can therefore provide a platform for gathering any sustainability data that is needed in an integrated report.

Organizations with experience in sustainability reporting are also more likely to have the systems, controls and assurance processes in place for the development of an integrated report. The five cities/local governments taken into consideration all started sustainability reporting voluntarily. They changed the way of disclosure, over the years making different major design choices. From the five cities/local governments taken into consideration just one, namely the City of Warsaw published an Integrated Report, all the other four major organizations choosing not to disclose such report. In what the periodicity of the reporting process is concerned, we identified different practices, ranging from multi-annual ones (e.g. Zurich) to an annual report (e.g. Warsaw).

Regarding the typology and format of the reports, they range from comprehensive ones (e.g. Warsaw), to information dissipated through different documents (e.g. Amsterdam with 9 documents to be included). Also, we identified different lengths in what the reports are concerned, (ranging from 9 pages for Paris to 32 pages Zurich to 110 in Amsterdam). There is an important aspect that needs to be mentioned related to the he absence of external auditing, and the self-made format utilized individually.

The analysis of quality showed different approaches, several reports featured questions of context, organizational performance, public policies and outlook to some degree. From one edition to another, reports usually discuss long-term trends through a set of indicators not the same for every one of them. For the dissemination of reports, all local governments recently used websites and social media. Usually this involves making reports available for download (with Dublin's not existing in print); only Zurich visualizes its data on a dedicated dashboard. The main limits of the study derives from privation of data needed, reporting practice regarding integrated reports in the public sector, that leads to the study case approach, the authors will use knowledge transference in order to construct a subsequently study with relevant empirical data. This study's findings tentatively suggest that meeting different information needs of different stakeholders requires smart strategies such as combining extensive, multi-year reports with executive annual updates disseminated in various media. For some local governments studied, especially those producing stand-alone reports, the pursuit of public legitimacy is an explicit objective, corroborating prior studies (Marcuccio and Steccolini, 2009).

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